Print Close

INVESTORS.com
POWERED BY INVESTOR'S BUSINESS DAILY

IBD EDITORIALS

Runaway Federal Debt Means Our Money Is Worth Less

By JAMES R. HARRIGAN AND ANTONY DAVIS
Posted 06:44 PM ET

From 1954 through 2012, the federal government shelled out a total of almost $72 trillion on all spending, combined. Over the same period, it collected revenues of under $56 trillion from all sources. The $16 trillion difference is today's federal debt.

But this simple math hides the fact that the dollar in your pocket today doesn't buy what the dollar in your grandfather's pocket bought years ago. There is a sleight-of-hand to Washington's method of dealing with long-term debt. Like every shell game, those who play will lose to those who make the rules.

And make no mistake, we are all playing by Washington's rules.

In 1960, the federal government spent $1.6 billion more than it collected in taxes. Given the deficits we run up these days, $1.6 billion seems almost laughable. Today, Washington blows through that much money in the length of time it takes to sit through a screening of "The Hobbit."

In 1960, though, you could buy six times more stuff for a dollar than you can buy today. That makes 1960's $1.6 billion deficit equivalent to a $10 billion deficit today.

So why is our money worth so much less, and why does it matter? After all, wages keep pace with inflation over time, so it's a wash, right? Well ... no, it isn't. A cost of living wage hike protects the money you earn this year from this year's inflation. It does nothing to protect money you earned last year and saved.

With inflation, the government pays back the number of dollars it borrowed, not the value of the dollars it borrowed. Inflation makes the dollars the government pays back worth less than the dollars it borrowed.

It's like my borrowing your car for a year. Sure, I give you the car back at the end of the year, but because of mileage and wear-and-tear, the car I give back is less valuable than the car I borrowed. Inflation is to the dollar what mileage and wear-and-tear is to the car.

The Politicians Know

Were it not for inflation, the $16 trillion that the government owes would be more than $22 trillion. Where did the $6 trillion difference go? It came out of people's pockets. The same inflation that reduces the value of the dollars the government owes also reduces the value of the dollars you own — your savings, the equity in your house, your retirement fund.

Sure, individual prices rise and fall over time, but that is not inflation. Inflation is the devaluing of existing dollars by the printing of more dollars — something politicians euphemistically call, "quantitative easing" and "lowering interest rates."

Washington's debt has gotten so far out of control that there are no politically viable cuts to make, nor enough rich people to tax in order to balance the budget.

The only thing left is for the government to print money to pay its bills. This is why the Federal Reserve has decided to keep long-term interest rates near 0% for the foreseeable future, and why observant people know that, unless Washington gets serious about cutting spending, we're going to be in for some serious inflation.

Nonexistent interest rates and significant inflation are the only things that will allow the government to continue spending money it does not have. And the more irresponsible the government is with spending, the more inflation will erode away our savings. This is a matter of simple economics.

Unfortunately, Washington's fiscal problem has grown so large that the answer now goes beyond simple economics. We must return government to its appropriate role as a referee in the marketplace, not a player. If we don't do this, the laws of mathematics and the forces of economics will do it for us — and they won't be gentle.

The sad thing is that the politicians all know as much. They just care more about the next election than they care about America's long-term economic health.

• Harrigan is a fellow of the Institute of Political Economy at Utah State University.

• Davies is associate professor of economics at Duquesne University and an affiliated senior scholar at the Mercatus Center.

© 2013 Investor's Business Daily, Inc. All rights reserved. Investor's Business Daily, IBD and CAN SLIM and their corresponding logos are registered trademarks of Investor's Business Daily, Inc. Copyright and Trademark Notice | Privacy Statement | Terms and Conditions of Use